



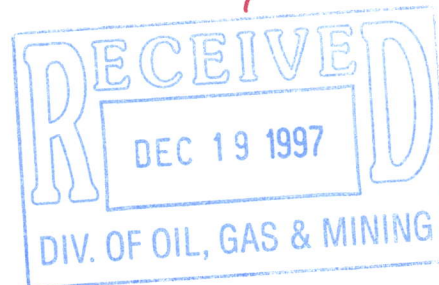
State of Utah

School and Institutional
TRUST LANDS ADMINISTRATION

Michael O. Leavitt
Governor

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Director

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December 17, 1997

CERTIFIED MAIL NO. P 959 218 968

Chimney Rock Resources, Inc.
376 South Giraud Avenue
Price, UT 84501

For Settlement Purposes Only

RE: ML 45089 - Building Stone/Limestone
Sections 11 & 12, Township 19 South, Range 12 East
Emery County, Utah

ML 45543 - Building Stone/Limestone
Section 1, Township 19 South, Range 12 East
Emery County, Utah

Gentlemen:

The School and Institutional Trust Lands Administration (the "Trust Lands Administration") met with Mr. Duane Frandsen, legal counsel for Chimney Rock Resources, Inc. ("Chimney Rock"), on December 12, 1997, regarding the recent mining activities upon the lands subject to Mineral Lease No. 45089 ("ML 45089") by Chimney Rock.

As we indicated to Mr. Frandsen, these activities by Chimney Rock are in violation of state law, regulations of the Trust Land Administration, and the terms and conditions of ML 45089. The following is a brief chronology of events that have led us to this conclusion:

- 1) On October 22, 1990, the Trust Lands Administration issued ML 45089 to Stephen Powell, Gregory Powell, and Barry Powell. Subsequently, on September 24, 1992, Stephen Powell, Gregory Powell, and Barry Powell executed a total assignment of ML 45089 to Chimney Rock Resources, Inc.
- 2) Sometime between 1990 and 1992, there occurred extensive unauthorized disturbances upon the lands subject to ML 45089 by a dozer reportedly under the direction of Stephen Powell.
- 3) On November 25, 1992, Chimney Rock submitted a copy of a "Notice of Intention to Commence Small Mining Operations," a form required by Division of Oil, Gas, and

Mining, to the Trust Lands Administration, which indicated, among other things, that an archeological survey was in the process of being completed.

4) On December 4, 1992, the Trust Lands Administration received a letter from Nielson Consulting Group regarding the cultural inventory of the lands subject to ML 45089, identifying the D&RGW railroad grade as a cultural resource site (Site 42Em 2321). The letter further states that more historic research on the D&RGW railroad grade was necessary before a formal cultural report could be issued. Our records do not contain any additional cultural resource information submitted by Chimney Rock.

5) By letter dated December 9, 1992, the Trust Lands Administration informed Chimney Rock that it could proceed with operations on ML 45089 under the following conditions:

A) Avoid the D&RGW railroad grade except where already disturbed, until the issuance of the final cultural clearance; and

B) Post a reclamation bond in an amount of \$3000.

6) Chimney Rock failed to post a reclamation bond as requested by the Trust Lands Administration letter dated December 9, 1992. Furthermore, Chimney Rock failed to respond to letters from the Trust Lands Administration dated May 13, 1994, June 16, 1994, and July 12, 1994, notifying Chimney Rock that a reclamation bond must be posted. Chimney Rock never received authorization to conduct any operations on ML 45089, because Chimney Rock failed to satisfy the conditions necessary for such authorization.

7) On July 20, 1994, the Trust Lands Administration received a letter from Chimney Rock stating that currently no mining activities were occurring upon the lands subject to ML 45089, and that Chimney Rock would post the necessary reclamation bond and notify the Trust Lands Administration prior to commencing any mining. The Trust Lands Administration confirmed this agreement by letter dated July 29, 1994.

8) On October 12, 1995, representatives of the Trust Lands Administration visited the lands subject to ML 45089 and discovered extensive trenching and other surface disturbance encompassing an area of over one acre. This disturbance is believed to be the unauthorized disturbance caused sometime between 1990 and 1992 by the dozer reportedly under Stephen Powell's direction.

9) By letter dated November 21, 1995, the Trust Lands Administration notified Chimney Rock that the unauthorized disturbance was a breach of ML 45089, and that Chimney

Rock must post a reclamation bond to remedy the breach. Furthermore, the Trust Lands Administration indicated that no mining or additional surface disturbance whatsoever was authorized until Chimney Rock: 1) obtained an approved plan of operations from the Trust Lands Administration; 2) provided the Trust Lands Administration with proper notification; and 3) posted an additional reclamation bond to cover future disturbances.

10) On April 23, 1996, an agreement was reached between the Trust Lands Administration and Chimney Rock, whereby Chimney Rock agreed to post a bond to cover reclamation of the disturbed lands. The agreement also specifically provided that no additional mining or disturbance was authorized until Chimney Rock: 1) obtained an approved plan of operations from the Trust Lands Administration; 2) provided the Trust Lands Administration with proper notification; and 3) posted an additional reclamation bond to cover future disturbances.

11) On May 15, 1996, Chimney Rock posted a \$2000 bond to cover the reclamation of the lands disturbed by the unauthorized activities conducted sometime between 1990 and 1992, which are located in and around the southwest portion of the D&RGW railroad grade.

12) The Trust Lands Administration subsequently did not receive, and consequently, has not approved a plan of operations of Chimney Rock. Furthermore, Chimney Rock has not provided the Trust Lands Administration with written notification of its intention to commence mining activities or disturbances, including reclamation, on the lands subject to ML 45089.

13) On November 19, 1997, representatives of the Trust Lands Administration visited the subject lands and discovered Chimney Rock engaging in unauthorized mining operations, including disturbances in the D&RGW railroad grade. It was apparent that unauthorized mining operations or disturbances had occurred in previously undisturbed portions of the D&RGW railroad grade, specifically, the northeast portion of the D&RGW railroad grade.

VIOLATIONS BY CHIMNEY ROCK

Chimney Rock has violated the following statutes, rules and lease provisions:

I. Utah Code Ann. § 53C-2-301.

The unauthorized mining activities or disturbances performed in the previously undisturbed northeast portion of the D&RGW railroad grade violate Utah Code Ann. § 53C-2-

301. Utah Code Ann. § 53C-2-301 provides that a person is liable for treble damages if, without written authorization from the Director of the Trust Lands Administration (the "Director"), such person appropriates, alters, injures, or destroys any historical resource on trust lands. Furthermore, Utah Code Ann. § 53C-2-301 provides for criminal prosecution of such person by the county attorney of which the affected lands are located.

Utah Code Ann. § 53C-2-301 applies to Chimney Rock's unauthorized mining activities or other disturbances of the D&RGW railroad grade. The D&RGW railroad grade has been identified as a cultural resources site (see paragraph 4). Chimney Rock has never obtained any permission, written or oral, from the Director allowing for any activities within the undisturbed portions of the D&RGW railroad grade. In fact, the Trust Lands Administration specifically told Chimney Rock to avoid undisturbed portions of the D&RGW railroad grade until a final Cultural Resources clearance was received (see paragraph 5). No such clearance was ever issued, and consequently, Chimney Rock has never received any authorization for such activities. Therefore, Chimney Rock is in violation of Utah Code Ann. § 53C-2-301, and subject to civil liability for treble damages and criminal prosecution.

II. R850-60-300.

Chimney Rock's unauthorized activities in the northeast portion of the D&RGW railroad grade violate R850-60-300, a rule adopted by the Trust Lands Administration, which provides that no person shall alter, remove, injure, or destroy any cultural resources on trust lands without written permission from the Trust Lands Administration. Any person found in violation of R850-60-300 will be subject to civil and criminal penalties. As described above, the D&RGW railroad grade has been identified as a cultural resource site, and Chimney Rock has never received any authorization, written or oral, for such activities. Therefore, Chimney Rock is in violation of R850-60-300.

III. Article III of ML 45089.

Article III of ML 45089 ("Article III") states that ML 45089 is subject to all valid rules and regulations adopted by the Trust Lands Administration. R850-60-300 is a valid rule adopted by the Trust Lands Administration. Chimney Rock is in violation of R850-60-300 (see paragraph III). Therefore, Chimney Rock is in violation of Article III, and consequently, is in breach of ML 45089.

IV. Article XII of ML 45089.

Article XII of ML 45089 ("Article XII") requires Chimney Rock, not less than sixty (60) days before commencement of exploration, drilling or mining operations, to: (1) provide the

Trust Lands Administration with written notification of commencement of activities; (2) submit a proposed plan of operation, which must be approved by the Trust Lands Administration prior to the commencement of any activities; and (3) furnish a bond with an approved corporate surety company authorized to transact business in the State of Utah, or such other security acceptable to the Trust Lands Administration, in an amount determined by the Trust Lands Administration.

Chimney Rock has failed to satisfy Article XII, even after repeated notifications by the Trust Lands Administration that Article XII must be satisfied (see paragraphs 5, 6, 7, 9, and 10). Chimney Rock's unauthorized mining activities are in violation of Article XII, and consequently, is in breach of ML 45089.

SETTLEMENT

The Trust Lands Administration is willing to forego any legal action against Chimney Rock, and its officers, if in return Chimney Rock:

1) Pays the Trust Lands Administration the five per centum (5%) production royalty due under Article VI of ML 45089 for all building stone/limestone removed from the subject lands;

2) Forfeits the \$2000 reclamation bond posted by Chimney Rock, as secured by Certificate of Deposit No. 2420731; and

3) Relinquishes all rights in ML 45089 and Mineral Lease No. 45543.

Failure to accept this offer will force the Trust Lands Administration to pursue all available options, including civil action for the termination of ML 45089, and treble damages for the injury and destruction to the D&RGW railroad grade.

Please be advised that the sole purpose of this letter is to set forth the terms upon which the Trust Lands Administration is willing to resolve this matter. This letter is not intended as a notice of default under Article XIX of ML 45089.

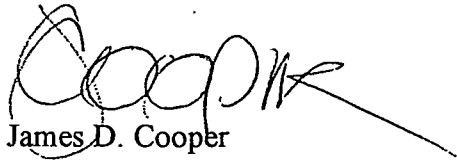
Furthermore, because Chimney Rock has not satisfied the terms and conditions of ML 45089, specifically Article XII, Chimney Rock is not authorized to conduct any activity upon the subject lands. Since Chimney Rock does not have authorization from the Trust Lands Administration, any activities upon the subject lands will be considered illegal under Utah Code Ann. § 53C-2-301. The Emery County Sheriff has been advised that Chimney Rock does not have authorization to conduct any activities upon the subject lands, and under Utah Code Ann. § 53C-2-302, is authorized to take any law enforcement action necessary to prevent any illegal activities on the subject lands.

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December 17, 1997
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If you have any questions please do not hesitate to call me at (801)538-5100.

Sincerely,



James D. Cooper
Assistant Director/Minerals

cc: David T. Terry
David Blackwell
Kyle Ekker
Val Payne
Rex Funk
Tony Gallegos
Duane Frandsen
Don Powell
Gregory Powell
Barry Powell